



SHOREBANK

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Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
By e-mail to: comments@FDIC.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219
By e-mail to:
regs.comments@occ.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, DC 20551
By e-mail to:
regs.comments@federalreserve.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
By e-mail to: regs.comments@ots.treas.gov

Re: Docket No. OP-1248 (Board); 06-10 (OCC); 2006-01 (OTS)
Proposed Commercial Real Estate Lending Guidance

Dear Mr. Feldman:

ShoreBank appreciates the opportunity to submit this response to the FDIC's request for comments on the proposed Guidance relating to "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" ("Guidance"). At \$1.7 billion in assets, ShoreBank is the nation's first and largest Community Development Financial Institution that is also a commercial bank. We are proud of our 33-year history of profitably serving lower-income, primarily African American neighborhoods in Chicago, Detroit and Cleveland in a manner that has strengthened those neighborhoods for the people who have lived in them over many years.

We have a particular interest in the Guidance because, through our history, ShoreBank has simultaneously (i) concentrated much of its lending in sustaining our communities through rehabilitation lending on smaller, overwhelmingly owner-managed multi-family apartment buildings; and (ii) achieved not only consistent profitability but also a return on equity commensurate with that of its peer institutions. In particular, the ROE on our commercial real estate portfolio (almost all of which is secured by multifamily buildings in Chicago) has averaged more than 20% over the past 5 years while our net charge offs on the segment have averaged 15 basis points. Many of the provisions of the Guidance are consistent with our current practice. We already obtain the direction of our Board,

keep them fully informed, underwrite and lend responsibly and monitor risk. However, we believe that a number of the explicit or implicit items in the proposed Guidance could seriously impinge on our ability to continue to perform well both for our neighborhoods and financially.

Should Owner-Managed Multifamily be Treated as Owner-Occupied?

As stated above, much of the multi-family real estate securing our loans is managed directly by the owner. The proposed Guidance state that “The Agencies have excluded loans secured by owner-occupied properties from the CRE definition because their risk profiles are less influenced by the condition of the general CRE market.” Our experience strongly suggests that owner-managed property similarly has a reduced risk profile; the multifamily portfolio whose high-quality performance is described above is approximately 80% owner-managed.

We strongly urge the Agencies, if they proceed with the Guidance, to include a definition of or safe harbor for “owner-occupied,” and to include owner-managed multi-family, as well as other commercial, real estate in that definition. For example, we believe that any multifamily building with fewer than 30 units that is managed by a person who has more than a 50% ownership interest in the entity that owns the property should qualify as owner-occupied.

Role of the Secondary Market

In the “Underwriting” and “Identifying and Managing Concentrations” sections of the proposed Guidance, the Agencies place some emphasis on underwriting to secondary market standards and having a strategy to sell to the secondary market. We agree that the secondary market can be a useful outlet. However, by knowing our communities well and underwriting in a manner that respects the market that exists in those communities—with respect to building purchase price, rehabilitation costs and affordable rents—we have been able to create a portfolio that has, as noted above, performed extremely well. It has sustained this performance for over 10 years and in various business cycles. Our loans are underwritten to standards that we have found to be successful for both profitability and mission, but they are our standards, not those of the secondary market. In other words, we do not believe we need secondary market validation of the quality of our loans. With respect to potential liquidity concerns, we urge the Agencies to consider a bank’s entire balance sheet in evaluating liquidity; in our case, we have significant other sources of potential liquidity.

We urge the Agencies to clarify that underwriting to the standards of the secondary market will not be required to demonstrate acceptable underwriting standards or risk management.

Stress Testing

The markets in which we operate have been stable over a long period, with pre-2001 increases in property values holding at about 3% annually, and increases in value running

8-10% since then. We recognize that this has been an important factor in our success. We regularly document trends in the market and take this into account in updating lending guidelines, monitoring procedures and loss reserves. We do not, however, engage in formal stress testing of individual loans or the portfolio. We have not found this to be necessary, and, given the markets in which we operate, we do not believe it would be meaningful.

We urge the Agencies to clarify that loan and portfolio stress testing will not be required to demonstrate acceptable risk management, loss reserves or capital amounts.

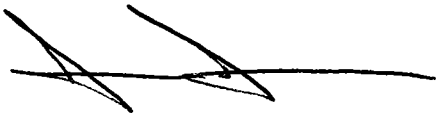
Capital Adequacy

We disagree with the statement in the “Principal Elements of the Guidance” (and its elaboration in the “Capital Adequacy” section) that “institutions with CRE concentrations . . . should hold capital higher than regulatory minimums.” Like most community banks, we strive to—and do—operate above the “well capitalized” level. However, we believe that the loans we make, secured by reasonably priced, well-developed and maintained, owner-managed multifamily real estate, are no more—and indeed less—risky than unsecured or asset based business loans. Our track record fully supports this. For example, while our Bank’s overall performance has been above peer, with over 15% ROE over the past 5 years and net charge-offs averaging 42 basis points, net charge-offs on our commercial real estate portfolio, almost entirely multifamily buildings, have averaged 15 basis points.

We therefore strongly urge that decisions about capital adequacy in excess of regulatory requirements be made as they currently are: on a case-by-case basis, taking into account an institution’s balance sheet; its risk management policies, procedures and performance; and the long-term performance of the portfolio. There should be no presumption that a portfolio such as ours requires additional capital.

Once again, we appreciate this opportunity to provide you with our comments on the proposed Guidance.

Sincerely,

A handwritten signature in black ink, appearing to read "Anne Arvia", with a long horizontal line extending to the right.

Anne Arvia
CEO & President